

# Does Ijmuiden lock signal more woes for BAM?

---

**Beatrice Mavroleon**

18/07/2018

This month (July 2018) saw European construction giants BAM and VolkerWessels announce a second cost overrun due to continuing problems with the Ijmuiden lock project in the Netherlands. This time, the overrun amounted to €30 million (\$35 million) for BAM and €31.5 million for VolkerWessels. It follows a similar announcement – made in December 2017 – that the project was likely to cost each company €67 million more than previously expected.

## **Bursting the bubble at Eindhoven**

Sadly for BAM, the Ijmuiden lock is just one in a line of problematic projects of recent times. Last summer (May 2017), the floor collapsed at a parking garage BAM was building at the airport in Eindhoven. This development shook investor confidence – not only in BAM, but also in the provider of the floor construction technology – and reminded the market that, despite recent attempts to project an increasingly stable image, BAM is still an unpredictable company where serious problems do crop up on a fairly consistent basis.

The floors at the Eindhoven development were built using so-called BubbleDeck technology, which enables precast concrete floor slabs to be embedded with weight-saving plastic balls. However, the parking garage collapsed two weeks before its planned construction completion date.

BAM is said to have received warnings from subcontractors that building faults had appeared two months before the disaster. However, while the company acknowledged that cracks were visible in March, it concluded these were merely an aesthetic issue, local news reports said at the time.

Beyond visible cracks in the flooring, other signs that there may have been something wrong included rainwater collecting on the storeys. As a result of the collapse, the supplier of BubbleDeck flooring is furious, arguing that BAM chose to withhold this information due to the delays that would have been caused by investigating the problems. Now confidence in BubbleDeck flooring – which has been widely used not only in the Netherlands, but also on projects across Europe – is "gone", according to Rob Plug of BubbleDeck.

## **Ijmuiden lockdown**

Meanwhile, sponsors OpenIJ – a consortium bringing together BAM PPP PGGM Infrastructure Coöperatie (50%) and VolkerWessels/DIF – first encountered problems at the Ijmuiden lock in early 2017. Towards the end of the year, the companies announced that costs for the project would be higher than anticipated. As a result, they took a collective accounting provision of €138 million, which was set aside in the companies' accounts to cover for future liabilities related to the scheme.

The problem related to the need to redesign the two caissons – the structure holding the lock doors – to prevent torsion

and cracking during immersion.

An independent consultancy firm this month (July 2018) audited the project and said the timeline for delivering the scheme was still overly optimistic. This resulted in BAM's €30 million July provision, which reflected the need to rearrange logistics for personnel and equipment used for the project.

Dutch procuring authority Rijkswaterstaat has said the delay at Ijmuiden will be at least 27 months, which means delivery of the project is now expected in January 2022 at the earliest, compared to the original targeted completion date of the autumn of 2019.

Ultimately, the problems with both the Ijmuiden and Eindhoven projects reflect the culture – and indeed the financial necessity – of taking on significant risks when bidding for projects, high levels of competition in the Dutch construction sector, changes to accountancy regulations, and some degree of bad luck.

Unfortunately, they do also point to the likelihood of further issues arising at Ijmuiden over coming months, according to analysts.

The €600 million Ijmuiden lock was the first major project in the Dutch locks PPP programme to reach financial close back in November 2016.

It followed the smaller pilot €34 million [Limmel Lock](#) project, which launched in July 2013.

Both projects are part of a wider Dutch locks programme which include:

- two [Eefde locks](#) – the second of which reached financial close in February 2017
- [Afsluitdijk](#) project – a scheme that closed in May (2018) and involves the renovation of a 32km dyke that runs between Friesland and Den Oever in North Holland

Meanwhile, the Ijmuiden project involves the construction of a new sea lock at the entrance to the North Sea Canal, which provides access to the Port of Amsterdam.

The initiative comprises the replacement of the 100-year-old northern lock, enabling it to accommodate the next generation of bulk carriers, container ships and cruise ships, reducing waiting times and operating independently of tidal levels. Its dimensions will be 500 meters in length, 70 meters in width and 18 meters in depth, compared to the old lock's dimensions of 400 meters, 50 meters, and 15 meters.

The biggest operational risk the project now faces is the sinking of the caissons – or lock gates – essentially a large, floating metal box. If this does not go well, the impact for the sponsors in terms of profitability and investor sentiment could be significant, analysts believe.

### **More trouble ahead?**

Problems aren't a new thing for BAM. Most recently, the company in 2016 reported losses in Germany related to its construction, and mechanical and electrical services work. Issues were the result of lower volumes, project postponements, settlements at older projects and subcontractor bankruptcies, and led to significant restructuring of its German business over the following year.

This followed the company's so-called 'Back in Shape' programme, which was implemented in 2015 to improve BAM's project controls and cut costs. This was achieved by boosting processes for project tendering and execution, improving cost forecasting and financial evaluation, implementing a trade working capital reduction of around €300 million, as well as via programmes of staff redundancies and asset divestments.

But problems on projects stretch further back for BAM, including for example the collapse during construction of a section of the Cologne metro system in March 2009.

Which is why it was hoped that the recent German restructuring and the 'Back in Shape' programme signalled a

turnaround for the company.

However, problems at the Eindhoven car park and the Ijmuiden lock mean that hope may have been misplaced, analysts believe.

Which means that if further problems arise at Ijmuiden – a development that one Amsterdam-based analyst said is likely – this will have quite an impact on investor sentiment.

And there is only an 85% chance that the project will be delivered by the newly-agreed Q1 2022 target date, which means there may be problems ahead, he said.

However, the need to take the €30 million July provision – after the €67 million provision taken only seven months earlier – may not have been entirely BAM and its partners' fault. As one analyst highlighted, under International Financial Reporting Standards (IFRS) accountancy regulations, companies are no longer allowed to take larger provisions, because these can only be taken on proven, demonstrable issues, which can result in these staggered announcements and their cumulatively damaging impact on investor sentiment.

Meanwhile, the risks that the companies arguably took on projects reveal a problem that is familiar from other construction markets – high levels of competition and the need to make up for unsuccessful bids.

“After losing a few bids, tender costs are so high that companies tend to lower the price in order to get the next project in,” said one source.

This of course mirrors the liquidation earlier this year of UK construction heavyweight [Carillion](#), whose demise has been blamed on aggressive bidding and the taking of excessive risks on a number of government contracts.

Although the Netherlands has been arguably the most active European PPP market over recent years, this has also increased competition from international companies, making it harder for local companies to secure contracts.

At the same time, the Dutch procuring authority and government “preach a focus on quality, but are also very much tempted by the lowest price. So high risks are often not priced in a proper manner,” the same source said.

The Dutch construction market faced a longer and more severe downturn after the 2008-09 financial crisis than most other European construction markets, one observer noted. This happened because, while other markets were starting to recover, in the Netherlands, negative political sentiment in the run up to the 2012 elections pushed consumer confidence to new lows, while exerting further pressure on the housing market and commercial building construction.

However, the financial impact on BAM from recent project mishaps is difficult to assess. The provisions are on the company's balance sheet, incorporated in trade working capital positions. However, the cash outflow corresponding to December 2017's €67 million impairment will only take place in 2018-19, and the additional €30 million will add to that at some point, making predictions difficult.

BAM has a long-term target for its adjusted profit before tax margin of 2-4%, which is fairly conservative, analysts say.

This meant they didn't have to adjust their profit guidance after the additional impairment on Ijmuiden, which explains why the announcement of the provision on 4 July was followed by a 5% drop to €3.36 for BAM's share price from market close on 3 July to 9am the next morning, while VolkerWessels' share price slumped by close to 10%.

Unlike VolkerWessels, BAM didn't have to adjust its profit guidance. Instead, the news from Ijmuiden just means BAM will only reach a 2% profit margin rather than 4%.

However, if the Dutch construction cycle swings back again, adding to pressure from the limited availability of subcontractors, the UK's departure from the EU and the associated uncertainty surrounding availability of materials, and pure bad luck like the hot day that is thought to have contributed to the collapse of the parking floor at Eindhoven, BAM could fail to capitalise on the current construction upturn, ending up in dire straits, particularly if problems at Ijmuiden

continue.

BAM says the construction of the two caissons at Ijmuiden is progressing well, with the first due to be installed in autumn 2018. Hopefully it is not proven wrong.

*Thank you for printing this article from IJGlobal.*

*As the leading online publication serving the infrastructure investment market, IJGlobal is read daily by decision-makers within investment banks, international law firms, advisory firms, institutional investors and governments.*

*If you have been given this article by a subscriber, you can contact us through [www.ijglobal.com/sign-in](http://www.ijglobal.com/sign-in), or call our London office on +44 (0)20 7779 8870 to discuss our subscription options.*